

**State Controller's Office  
California Performance Review  
Talking Points**

**Introduction**

- Good afternoon, for the record, I'm Vince Brown, Chief Operating Officer for State Controller Steve Westly (the Controller). I'd like to thank the Governor for authorizing the CPR study and I thank the Commission for the opportunity to make a presentation today.
- As the State's Chief Fiscal Officer, the Controller is pleased to provide input to the Commission regarding the State's Fiscal System. I also note that he has a policy team reviewing the CPR and may submit additional recommendations to the Commission.
- The CPR report entitled "*Keeping the Books*": *California's Budget, Financial and Performance Review*, examined the books and evaluated the status of the State's fiscal and performance management practices.
- Based on finding in "*Keeping the Books...*", the Controller supports CPR recommendations SO 25 A and C and SO 38 A, B, C, and E.
- SO 25 concludes that California state government should replace its duplicative and numerous financial software applications with one global statewide-centralized enterprise application, which interfaces with enterprise asset management and enterprise procurement tools.
- SO 38 concludes that California does not have adequate financial management systems in place to provide decision-makers with the information they need. California should invest in a centralized automated financial management system to ensure accountability and credibility.
- The Controller supports these two recommendations and looks forward to providing leadership to transform the way the state conducts its budget, treasury, accounting, and disbursement business processes.
- To begin work on the replacement of a State Enterprise Fiscal System, the State Controller's Office (SCO) will submit a Budget Change Proposal (BCP) for FY 05-06 to conduct an assessment of the State's business needs and develop a Feasibility Study Report (FSR) to replace the State's aging Fiscal System.
- We look forward to working with the State's Chief Information Officer (CIO), Department of Finance (DOF), State Treasurer's Office (STO) and other departments to begin this effort.
- I also note that SCO's CIO has been working with Clark Kelso and other State Department CIO's on technology and procurement reform.

- For your information, the Controller has taken a strong leadership role in advocating technology improvements in his office. Specifically, our office has:
  1. Begun the 21<sup>st</sup> Century Project to replace the 30 year old Human Resource Management System.
  2. Implemented the California Automated Travel Expense Reimbursement System (CalATERS).
  3. Begun work on an Apportionment Payment System to replace the current system with a more integrated system.
  4. Moreover, our office will submit Fiscal Year (FY) 05-06 BCPs to replace our Unclaimed Property System and develop an automated Local Government Claim Management System.

### **Financial System Review**

- You may ask why do we need to replace the State's Fiscal System?

According to the CPR:

1. The large number of existing financial systems is not efficient or effective, 1800 systems costing \$2B annually to operate.
2. The existing systems lack sufficient oversight or audit controls.
3. Many existing systems are obsolete due to deferred maintenance.
4. The state is dependent on diminishing staff resources to maintain and operate its systems and to ensure data integrity.
5. The decentralization of the state's systems has created a cost risk because a complete, accurate centralized inventory of fiscal systems does not exist.
6. Systems' design limits their use and increases maintenance, especially for systems that co-mingle accounting and program functionality.
7. The state lacks a clear definition as to who is accountable for financial management and related systems, is it the State Controller, the Director of Finance, the State Treasurer or the State's Chief Information Officer?
8. The state lacks a strategic direction for financial management and related systems, and currently has no plan to get there.

## **Financial Condition Reporting Methods**

- The CPR noted in SO 38 that California's past accounting practices have violated basic rules that govern objective financial reporting necessary to support accountability and sound management decision-making.
- SO 38 notes that "California does not have adequate financial management systems in place to provide state decision makers information for an efficient and cost effective state government".

## **Conclusion and Action**

- The CPR identified the state lacks enterprise-wide budget and financial systems that are necessary to produce the information managers' need to plan and manage. Existing technologies are dated and fragmentary.
- The void of state operational leadership must be corrected and must be corrected soon. We need a centralized enterprise (statewide) financial management system as the CPR recommends.
- Existing systems are not meeting the state's business needs or expectations. But with the state at a critical juncture, urgency in correcting past problems is paramount. Planning for a financial system replacement must not be deferred.
- I encourage the implementation of CPR recommendations SO 25 A and C and SO 38 A, B, C, and E. I look forward to working with other state department representatives to develop a vision and plan for a California enterprise Fiscal System.
- The only concern I have with the recommendations is the timelines established in SO 25. In my opinion, a thorough analysis must be conducted and an FSR completed first before a schedule is established.
- As I have stated earlier, I have instructed the SCO staff to develop the budget proposal that calls for a study to replace current outmoded legacy systems that will result in a centralized enterprise financial management system.
- I believe this is the first step, but necessary step on a long journey to replace the State's Fiscal System.
- Thank you for your consideration of the Controller's recommendations.